

Staff Report

Regular Board Meeting

TO: Governing Board Members

FROM: General Manager/CEO

SUBJECT: Consider Adoption of Resolution 2024.12 - Updating the Schedule of Water and Wastewater Rates and Charges, Public Hearing

RECOMMENDATION

That the Board of Directors adopt Resolution 2024.12 - Updating the Schedule of Water and Wastewater Rates and Charges.

BACKGROUND / ANALYSIS

The Finance and Human Resources Committee reviewed the Capacity Fee Study completed by IB Consulting, at their November 4, 2024 meeting. The District is regulated to only collect rates and fees to cover the actual cost of water and wastewater service. The rates and fees are regularly evaluated to ensure they are accurate and fairly collect the required revenue to provide water and wastewater service. Fees are one-time costs incurred by various customer classes for specific purposes. One of the fees the District collects is the water and wastewater capacity fee.

A water utility capacity fee, sometimes referred to as an impact fee or connection fee, is a one-time charge assessed by the District when a new connection is made to the water and wastewater system. This fee covers the cost of infrastructure needed to supply water to the new user without impacting existing customers. The purpose of the fee is to fund expansions or upgrades to the water supply, treatment facilities, storage, and distribution systems to meet the increased demand from additional connections. The capacity fees shift the cost burden of expanding capacity to new developments rather than existing customers. It is a one-time fee paid to the District prior to obtaining water and wastewater service.

The capacity fees are changed annually to adjust for inflationary cost effects on construction cost. The District annually adjusts the fees based on the Construction Cost Index (CCI). However, the CCI has not adequately reflected the rising construction cost in the water/wastewater industry over the past several years. Recent engineering cost estimates for reservoir and well projects have shown that the District's current water capacity fees fall short in collecting from development their share of the cost of new facilities.

The District has completed an evaluation of the capacity fees to determine if they are collecting the fair share of cost from new customers. The District retained IB Consulting

(IBC) to perform a Capacity Fee Study in accordance with industry standards and State regulations.

The Capacity Fee Study utilizes two industry standard methodologies for developing Capacity Fees, which are the Incremental/Marginal Cost and the Buy-In methods. The Buy-In method recognizes that the District has already made investments in infrastructure that have the capacity to facilitate growth and asks new development to repay the District for those investments. The Incremental Cost method asks new development to pay for certain capacity projects included in Master Plans and the District's Capital Improvement Program.

The results of the study presented in the report show a significant change in assumptions since the last comprehensive study in 2019, causing proposed water fees to increase, and wastewater fees to decrease. The main reasons for these changes are explained below:

- The rising cost of water facilities continues to outpace the annual adjustments to District fees based on the Construction Cost Index. In the current study, the cost of water storage and new water supply wells are more than twice the cost of assumptions made in the 2019 study.
- Wastewater fees are lower for a couple of reasons, 1) the need to upsize certain sewer mains in the 2019 report is not identified as an immediate need in the current report because of the impact of conservation on sewer flows, and 2) the District has financed a larger portion of the Sterling Natural Resource Center creating a lower buy-in component for new customers/development.

The Capacity Fee Study recommends an increase of \$3,502 per equivalent dwelling unit for water and a decrease of \$2,528 per equivalent dwelling unit (EDU) for wastewater. An equivalent dwelling unit is based on a typical single-family house. Developments that require larger meters pay a proportional higher cost based upon the flow rate of larger meters. Although the proposed change in total capacity fees is relatively small (\$974/EDU), it allows the appropriate fees to be collected more accurately for the specific water and wastewater funds accordingly.

Public notices about the capacity fee updates under consideration were posted in locally circulated newspapers both 14 and 7 days in advance of this public hearing. In addition, the Capacity Fee Study has been made available for public inspection at least 10 days prior to the hearing.

AGENCY GOALS AND OBJECTIVES

- IV - Promote Planning, Maintenance and Preservation of District Resources
 - B. Enhance Planning Efforts that Respond to Future Demands
 - C. Dedicate Efforts Toward System Maintenance and Modernization

REVIEW BY OTHERS

This agenda item has been reviewed by Legal Counsel, the Finance & Human Resources Committee; and the Administration, Engineering, and Finance Departments.

FISCAL IMPACT

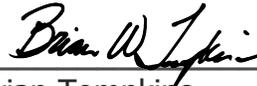
Approving the change in Capacity Fees will increase revenue that will be allocated to the water and wastewater reserves for system expansion projects. There will be no impact to the current year operating and capital budgets.

Recommended by:

Respectfully submitted:



Michael Moore
General Manager/CEO



Brian Tompkins
Chief Financial Officer

ATTACHMENTS

1. Presentation-EVWD
2. EVWD Resolution 2024.12
3. Exhibit A - Schedule of Water and Wastewater Rates and Charges
4. Exhibit B - IB Consulting Capacity Fee Study
5. Public Hearing Notice